

Message Text

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ACTION EA-09

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4673

INFO AMCONSUL HONG KONG

AMEMBASSY TOKYO

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SUMMARY: THROUGH THE FIRST QUARTER OF 1977, THE PERFORMANCE OF THE KOREAN ECONOMY IN THE EXTERNAL SECTOR REMAINED VERY STRONG, WELL AHEAD OF TARGET LEVELS. COMMODITY EXPORTS WERE UP 45PCT OVER THE CORRESPONDING PERIOD LAST YEAR(29.9 PCT IN REAL TERMS); RECEIPTS FROM SERVICES ROSE 126PCT. WITH IMPORTS AND OTHER PAYMENTS SHOWING ONLY NORMAL INCREASES, THE CURRENT ACCOUNT DEFICIT WAS HELD TO A VERY MODEST \$54.4 MILLION FOR THE QUARTER. ON CAPITAL ACCOUNT, THE LONG/MEDIUM TERM INFLOW WAS ONLY SLIGHTLY BELOW THE CORRESPONDING PERIOD LAST YEAR, PRODUCING A COMFORTABLE SURPLUS ON BASIC ACCOUNT. THE INFLOW OF SHORT-TERM CAPITAL WAS SHARPLY REDUCED

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AS A RESULT OF DELIBERATE GOVERNMENT POLICY. THE NET RESULT OF OVERALL BALANCE OF PAYMENTS FLOWS, HOWEVER, WAS A SUBSTANTIAL INCREASE IN KOREAN FOREIGN EXCHANGE RESERVE HOLDINGS. END SUMMARY.

1. ACCORDING TO INFORMATION JUST RELEASED BY THE BANK OF KOREA, COMMODITY EXPORT RECEIPTS FOR THE FIRST QUARTER OF 1977 WERE \$2,088.6 MILLION -- AN INCREASE

OF 45PCT OVER THE CORRELponding PERIOD LAST YEAR, AND WELL AHEAD OF THE 28PCT TARGET GROWTH FIGURE FOR THE YEAR AS A WHOLE . IMPORTS OF \$2,234.9 MILLION FOR THE FIRST QUARTER REPRESENT A 27.2PCT INCREASE OVER THE SAME PERIOD LAST YEAR, ONLY SLIGHTLY ABOVE THE 25PCT TARGET PROJECTION FOR THE YEAR.

2. INVISIBLES SHOWED A STRONG POSITIVE TREND THROUGHOUT THE FIRST QUARTER. WITHIN THIS CATEGORY, NET SERVICES MOVED FROM A \$97.4 MILLION DEFICIT (FOR THE CORRESPONDING PERIOD LAST YEAR) TO A \$50.6 MILLION SURPLUS, WHILE NET TRANSFERS DROPPED SLIGHTLY FROM \$50.3 MILLION TO \$41.3 MILLION. THE MOST DRAMATIC MOVEMENT WAS IN THE SERVICES ACCOUNT, REFLECTING A BIG JUMP IN RECEIPTS FROM OVERSEAS CONSTRUCTION CONTRACTS, AND, TO LESSER EXTENT, TOURISM.

3. THE PERFORMANCE OF EXPORTS AND INVISIBLES, ALONG WITH NORMAL IMPORT RESULTS, COMBINED TO PRODUCE AN EXCEPTIONALLY MODEST CURRENT ACCOUNT DEFICIT OF \$54.4 MILLION. THE CURRENT ACCOUNT MIGHT EVEN HAVE SHOWN A SURPLUS, AS RECENTLY PROJECTED - UNOFFICIALLY - BY SOME SOURCES (REF A), IF CERTAIN ADDITIONAL ITEMS HAD NOT BEEN ADDED IN THE INTERIM TO THE DEFINITION OF IMPORTS FOR ACCOUNTING PURPOSES. WHEN ONE CONSIDERS THAT

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THE FIRST QUARTER IS NORMALLY THE SLOWEST IN TERMS OF RECEIPTS, AND THAT THE PROJECTED CURRENT ACCOUNT DEFICIT FOR 1977 AS A WHOLE WAS ORIGINALLY SET AT \$484 MILLION, FIRST QUARTER RESULTS WOULD INDICATE THAT A CURRENT ACCOUNT SURPLUS IN 1977 MAY BE WITHIN REACH. PRESENT UNOFFICIAL ESTIMATES ARE BETWEEN \$100 AND \$150 MILLION.

4. ON CAPITAL ACCOUNT, NET INFLOWS FOR THE FIRST QUARTER FELL FROM \$570.5 MILLION (FOR THE CORRESPONDING PERIOD LAST YEAR) TO \$370.8 MILLION. THE NET LONG/MEDIUM TERM CAPITAL INFLOW DROPPED OFF A BIT, FROM \$297.0 MILLION TO \$275.6 MILLION; WHILE THE NET INFLOW OF SHORT-TERM CAPITAL AND "OTHERS" DROPPED SHARPLY FROM \$273.5 MILLION TO \$95.2 MILLION. THE LATTER MOVEMENT REFLECTS A DELIBERATE POLICY OF THE KOREAN GOVERNMENT TO LEVEL OFF KOREA'S SHORT TERM OBLIGATIONS AS A MEANS OF CURTAILING THE RECENT TREND TOWARDS AN UNDESIRABLY RAPID INCREASE IN THE MONEY SUPPLY. A KEY ITEM IN THE DROP-OFF OF LONG-TERM CAPITAL INVOLVED IMF LENDING: IN THE FIRST QUARTER OF 1976, THE KOREAN DREW DOWN \$64 MILLION IN IMF COMPENSATORY AND OIL FACILITY FINANCING, WHEREAS THE FIRST QUARTER OF 1977 SHOWED NO IMF

TRANSACTIONS. AS A NET RESULT OF OVERALL BALANCE OF PAYMENTS FLOWS, KOREA'S TOTAL FOREIGN EXCHANGE RESERVES ROSE SUBSTANTIALLY TO \$3,212.5 MILLION AT THE END OF THE FIRST QUARTER.

5. COMMENT: THE PERFORMANCE OF THE KOREAN ECONOMY IN THE EXTERNAL SECTOR DURING THE FIRST QUARTER WAS, IF ANYTHING, STRONGER THAN EXPECTED AND AUGERS WELL FOR THE ACHIEVEMENT OF 1977 BALANCE OF PAYMENTS GOALS. GOVT SOURCES APPEAR GENERALLY HOPEFUL THAT A MODEST CURRENT ACCOUNT SURPLUS WILL BE ACHIEVED BY YEAR'S END, PARTICULARLY IF SERVICES RECEIPTS, AS EXPECTED, CONTINUE AT THEIR HIGH LEVELS. SPECIFICALLY REGARDING UNCLASSIFIED

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EXPORTS, HOWEVER, RECENT L/C ARRIVAL DATE INDICATE THAT THE GROWTH RATE MAY BE SLOWING DOWN SOMEWHAT IN THE SECOND QUARTER; ACHIEVEMENT OF THE \$10 BILLION EXPORT TARGET FOR 1977 IS THEREFORE BY NO MEANS A FOREGONE CONCLUSION, ALTHOUGH IT STILL REMAINS HIGHLY PROBABLE. SNEIDER

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